
SOUTH FLORIDA WATER MANAGEMENT DISTRICT



Audit of the September 1996 Surplus Property Auction

Audit #96-06

Prepared By
Office of Inspector General

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TABLE OF CONTENTS

BACKGROUND	1
OBJECTIVES, SCOPE AND METHODOLOGY	3
FINDINGS AND RECOMMENDATIONS	4
Several Items Sold at the Auction Without Governing Board Approval	6
20% Discount to Governments and Nonprofit Organizations Exceeded the \$500 Maximum Allowed	10
Update Fixed Asset Guidelines to Reflect Revisions to Florida Statutes	11
Contract Monitoring Needs Improvement.....	12
Verification of Selling Price Not Performed by District Personnel.....	14
Specific Approval for Exceeding Reimbursable Expense Threshold Should be Documented	16

BACKGROUND

Approximately once a year the District's [General Services Division](#) retains a private auctioneer to conduct an auction in order to dispose of surplus property. Surplus property represents property that is deemed to be either in excess of needs, inefficient for continued use, or uneconomical for repair. This year the auction was held at the West Palm Beach Field Station on September 28, 1996. The [Governing Board](#), at their August 1996 meeting, approved for disposal a total of 208 items as follows:

88	trucks/vans
8	sedans/wagons
13	tractors/heavy equipment
18	boats/trailers
21	computers/office equipment
40	samplers
20	miscellaneous equipment

The total original acquisition cost for these items was approximately \$2 million. General Services actually disposed of 151 items at auction, which includes similar equipment that was grouped together for sale. These items had an original cost of approximately \$1.5 million for which the District received \$284,636, for a 17.9% recovery, based on net sales after auctioneer commission and expenses and adjusted for assets sold for which no original acquisition cost was reported. The difference between the total number of items approved and the number of items actually sold resulted from assets that were placed back into service and others that will be sold by sealed bid.

The auction was conducted by the Jim Graham Auction Company, which is under contract with the District. Under the terms of the contract, the auctioneer receives 22% of the gross sales proceeds and is entitled to be reimbursed up to \$3,500 for out-of-pocket expenses, without specific approval from the District. The auctioneer is responsible for various aspects of the

auction including: advertising, registration of bidders, conducting the auction, collecting the proceeds, and providing a full accounting of the auction to the District.

The District Property Manager, who reports to the General Services Director, is responsible for overall coordination and oversight relating to the performance of the auctioneer contract. The Property Manager's duties consist of authorizing fixed assets for transfer or disposal, preparing a report of surplus property and submitting that report to the Governing Board for approval, physical custody of surplus property, arranging the surplus property for auction, gathering titles and registrations (if applicable), providing offices for clerks to prepare bills of sale and collect proceeds, and reporting the results of the auction to the Governing Board.

**OBJECTIVES,
SCOPE AND
METHODOLOGY**

We performed an audit of the September 28, 1996, auction in order to determine:

- ! compliance with applicable District policies, procedures, guidelines, and Florida Statutes, and
- ! the extent to which the District monitors and supervises the Auctioneer contract and ensures that there are adequate and effective internal controls over the process.

During the course of our audit we:

- ! identified specific risks and developed appropriate procedures to address these risks,
- ! made a surprise visit to the auction site on auction day and recorded our observations,
- ! reviewed applicable Florida Statutes, District policies, procedures and guidelines,
- ! reviewed and evaluated internal controls for adequacy and effectiveness,
- ! interviewed key employees who are directly involved in the process and made necessary inquiries of District personnel not directly involved in the process,
- ! examined *Property Control Forms* and maintenance records kept on surplus vehicles,
- ! reviewed the *Auction Settlement*, which is the final accounting provided by the auctioneer, for completeness, validity and mathematical accuracy, and
- ! performed other procedures that we deemed necessary under the circumstances.

Our audit was performed in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

Overall, the District's Property Manager, and other General Services Division staff who assisted him, complied with applicable District policies and procedures and did an effective job of disposing of surplus property. In turn, the auctioneer firm ostensibly fulfilled its responsibilities. Several opportunities to improve compliance with District policies and improve controls were noted.

Governing Board approval of the sale of surplus property is a requirement of the District's *Fixed Asset Guidelines*. We found that several items were sold without Governing Board approval, including three Fairbanks Morse engines, originally valued at approximately \$43,000 each that sold for a total of \$1,400. Otherwise, the District did comply with applicable statutes and internal policy guidelines. The Guidelines need to be updated to reflect recent changes to the Florida Statute regarding the donation of fixed assets.

The District needs to better enforce certain provisions of the contract. The required *Certificate of Insurance* and proof of the surety bond were not obtained. The provision requiring the auctioneer to remit the sales proceeds and provide a full accounting of the auction within three working days was not complied with. We have concluded that this provision may be unreasonably demanding.

The criterion developed for the replacement of vehicles and heavy equipment, as outlined in the FY97 Five Year Fleet Replacement Plan, appears reasonable. The vehicles and heavy equipment that were disposed of during the auction appeared to have met the stated replacement criteria.

Our review of District procedures and monitoring of the auction identified areas that need strengthening. Specifically, we observed that the District's Property

Manager does not independently verify the auctioneer reported selling price. The sum of the individual expense items was less than the total reported by the auctioneer in the *Auction Settlement* statement. There was no documentation of the approval given to exceed the \$3,500 maximum allowed to reimburse the auctioneer for out-of-pocket expenses incurred to advertise and staff the auction. In one instance, an item of surplus property did not get to the auction site and was not sold. Finally, we noticed that a discount given to a nonprofit agency exceeded the \$500 maximum imposed by the *Donation of Surplus Property Guidelines*.

Details of our findings follow.

**Several Items Sold
at the Auction
Without Governing
Board Approval**

Chapter 274.07, F.S. requires that the "[a]uthority for the disposal of property shall be recorded in the minutes of the governmental unit." Property, as defined by Chapter 274.02, F.S. "means fixtures and other tangible personal property of a nonconsumable nature the value of which is \$500 or more and the normal expected life of which is 1 year or more." Additionally, the District's *Fixed Asset Guidelines* require that the Governing Board approve, for retirement and disposal, all assets that can be no longer economically utilized.

A *Property Control Form* is the source document used to transfer assets to the Property Manager, thus promoting accountability over assets that are identified as surplus. This transfer also causes surplus property to be designated as such in the fixed asset records, which results in its inclusion in the *Surplus Tangible Property* listing that goes to the Board. The District's internal control activities for surplus properties that assure that management directives are carried out and that necessary actions are taken, are initiated and documented in the *Property Control Form*. The Form requires the signature of the user department Property Clerk and Director (or Deputy Director), the Director of Fleet Management (if the item is a vehicle or heavy equipment), the Property Manager and the receiving Director (if the item is being transferred). The *Property Control Form* also serves to document the reasons and provide the justification for fixed asset disposals. Unapproved sales result when the *Property Control Form* has not been completed, thus circumventing the internal controls established for the retirement and disposal of District fixed assets.

The majority of the 151 items sold at the auction were on the *Surplus Tangible Property* list approved by the Governing Board during the August 1996 meeting; however, several items, drawing approximately \$4,000 in sales proceeds, were not on the approved list. The most significant items included three Fairbanks Morse engines valued at approximately \$43,000 each in the

District fixed asset records. The first engine that was auctioned sold for \$1,000, and the remaining two sold for only \$400. The reason for the omission of the three engines from the *Surplus Tangible Property* list appears to be that the engines were originally recorded in the "building" category of the fixed asset records, which is a real property category, as opposed to the "equipment" category, which is personal property, and the category that surplus property generally originates from. Because of this, a *Property Control Form* was not completed. This digression may occur with greater frequency as the District continues to repower its pump stations.

In another instance, a portable crane (sold for \$1,400) was sold without Board approval. The reason given for the omission of the crane from the July 1996 *Surplus Tangible Property* list is that a *Property Control Form* was not completed because the crane couldn't be separately identified on the fixed asset records. It is believed to have been affixed to a vehicle and recorded as one property item with a combined cost. The cost of the crane could not be separately determined.

Conversely, a Metco 10E spray machine, purchased in 1971 for \$3,470, that was included on the *Surplus Tangible Property* listing was not delivered to the auction site and, therefore, was not sold.

In addition to the control weaknesses identified above, we also question whether the District received the best price possible for the Fairbanks Morse engines. The inclusion of the engines in the auction appears to have been an afterthought. They were delivered to the site a day before the auction, which was when the Property Manager first became aware of their availability for sale. As a result, there was no time to market the engines effectively; they received no mention in the promotional materials sent out by the auctioneer or the District's auction notices to other governmental entities. There was also insufficient time to identify and notify individuals who would be interested in purchasing very large diesel

engines for anything other than scrap. The haste with which these engines were disposed of may have resulted in the District not realizing the highest possible salvage value possible.

In response to our draft report, the General Services Division stated that prior experience with sealed bid sales of large obsolete engines from pumping stations was taken into consideration when these engines were placed into the auction. In May 1995, three similar engines were sold by sealed bid for only \$350. According to General Services, the engines could only have deteriorated if left to the elements while they went through a lengthy advertising process.

Recommendations:

- 1. Procedures should be established to ensure that all assets approved for sale are at the auction site.**

Management Response:

AWe concur with the recommendation and will establish a cut-off date, two weeks in advance of the auction, for moving items to the compound. The approved auction list will be reviewed against the items at that time to permit adequate follow-up on items not at the compound.@

Responsible Division: General Services, Property Management Area

Estimated Completion Date: December 15, 1996

- 2. A *Property Control Form* should be completed in advance for each fixed asset sold.**

Management Response:

AWe concur with the recommendation. We will immediately notify all field stations/pump stations that a Property Control Form is required for any item going into the auction, regardless of whether or not it is part of the fixed asset system identified with a property control tag.@"

Responsible Division: General Services, Property Management Area

Estimated Completion Date: December 15, 1996

- 3. For any unusual and significant items, such as the large diesel engines that power District pump stations, the Property Manager should advertise those items in advance of the auction in specific markets that would attract the greatest number of potential buyers.**

Management Response:

General Services agrees with the recommendation and will implement it on a Atrial basis to determine its feasibility.@"

Responsible Division: General Services, Property Management Area

Estimated Completion Date: ASAP

**20% Discount to
Governments and
Nonprofit
Organizations
Exceeded the \$500
Maximum Allowed**

The District's *Donation of Surplus Property Guidelines*, effective August 16, 1996, allows the District to donate surplus property with a market value of less than \$500 or provide a 20% discount (up to \$500) off the purchase price at auction to other local governmental units and nonprofit (501) agencies within District boundaries. During the auction, one such discount was provided in the amount of \$680, or \$180 above the maximum allowed per the guideline.

Recommendation:

- 4. Control procedures should be established to ensure that the \$500 discount, given to other governments and nonprofit organizations, is not exceeded.**

Management Response:

AWe concur with the recommendation. We have requested that the auctioneer reimburse the District the \$180 excess donation allowance. We will revise the Surplus Property Donation Guidelines to require that the Property Manager or Asset Control Technician provide signatory release of all discount donations. This will provide an additional control to insure that all guidelines are complied with.@

Responsible Division: General Services, Property
Management Area

Estimated Completion Date: January 15, 1997

Update *Fixed Asset Guidelines* to Reflect Revisions to Florida Statutes

A revision has been made to Chapter 274, F.S. that now allows the District to donate surplus property to local governments or nonprofit organizations without first offering such property for sale. The District's *Fixed Asset Guidelines* have not been changed to reflect this revision and still require surplus property to first be offered for sale. The guidelines should be changed to reflect this revision; if not, misunderstandings and confusion could result between the District and the other governmental agencies within the area that the District serves.

Recommendation:

- 5. The District's *Fixed Asset Guidelines* should be updated to reflect the most current statute.**

Management Response:

AWe concur with the recommendation and will work with SID to revise the District's *Fixed Asset Guidelines* to include provision for donations, as amended in Chapter 274, F.S.®

Responsible Division: General Services, Property Management Area

Estimated Completion Date: January 15, 1997

**Contract Monitoring
Needs Improvement**

The contract with the auctioneer requires that the auctioneer maintain insurance coverage for general and automobile liability, workers= compensation and professional liability. Evidence of such coverage is required to be in the form of a completed *Certificate of Insurance*. The auctioneer is also required to provide the District with evidence of a \$250,000 surety bond to guarantee against losses by theft, burglary, pilfering and vandalism.

A completed *Certificate of Insurance*, covering the period in which the auction was held, was not obtained and no evidence of the surety bond requirement could be located. The potential lack of insurance and the bond exposes the District to unnecessary risk of loss. We noted that proof of insurance was obtained for the May 1995 auction when the contract was originally executed. The Procurement Division is responsible for obtaining proof of insurance and surety bonds.

The contract also requires that the auctioneer provide a full accounting and transfer all sales proceeds to the District not later than three working days after the sale. The *Auction Settlement*, which is a full accounting of the auction, and the sales proceeds, were received on October 4, the fifth working day after the auction. We discussed the three-day time limit with the Property Manager and agreed that it may be too ambitious and may pose an unfair burden on the auctioneer. The interval for the last auction was four days. The difference between three or four days and five days does not amount to a material amount of lost opportunity cost to the District.

Recommendations:

- 6. Obtain evidence of the required insurance and surety bond and develop procedures to ensure that this does not occur in the future.**

Management Response:

The Procurement Division concurred with the recommendation and indicated that they requested an updated *Certificate of Insurance* and proof of surety bond from the Contractor. They also indicated that they developed procedures to ensure that this situation does not occur in the future.

Responsible Division: Procurement

Estimated Completion Date: January 31, 1997

- 7. Change the contractual requirement to remit the proceeds in three working days to something more realistic and assess interest charges for every day past the agreed upon time limits.**

Management Response:

AWe concur with the recommendation and will amend the Auctioneer Services Contract (C-6411) to extend the time for remitting the proceeds from three (3) working days to seven (7) working days.@

Responsible Division: General Services, Property Management Area

Estimated Completion Date: January 1, 1997

**Verification of
Selling Price Not
Performed by
District Personnel**

Property Management does not verify individual item selling prices as reported by the auctioneer. This could result in the District not receiving full compensation for the items sold at the auction.

In accordance with District procedures, the auctioneer makes a tape recording of the entire auction. One way to verify the accounting provided by the Auctioneer in the *Auction Settlement* statement would be to obtain, and listen to the tape recording and compare the amount of the winning bids per the tape recording to the detail listing in the statement. This would require approximately three hours time. Another way to verify the selling price would be to have District personnel, who are already observing and assisting at the auction, record the sales price on the *Auction Catalog*, which is a computer printout prepared by the auctioneer, of the items for sale.

Two auditors from our Office independently performed the latter procedure the day of the auction. Our tally of the sales identified a \$775 discrepancy for five items. Of this discrepancy, we received a reasonable explanation for \$325. The remaining \$450 could be due to either discrepancies between Inspector General auditors or errors made by the auctioneer. Due to the immateriality of the amounts involved, we did not listen to the tapes or investigate further; however, the fact that errors can occur emphasizes the need for an independent verification and/or reconciliation of the selling prices.

Recommendation:

- 8. Property Management should independently verify auction sales amounts either through examination of the tape recording that is made of the auction or by independently recording winning bids at the auction.**

Management Response:

AWe concur with the recommendation. Property Management was provided with a list of items where the selling price recorded by the auctioneer disagrees with the price recorded by the auditors. Property Management is awaiting a copy of the tape recording from the auctioneer of the total auction process. Upon receipt of this tape, we will have it transcribed and compare it to the auditor's notes.

Property Management has arranged to obtain auctioneer tapes of all future auctions. Property Management will perform random price checks against the auctioneer's hard copy settlement reports.@

Responsible Division: General Services, Property Management Area

Estimated Completion Date: January 1, 1997

**Specific Approval
for Exceeding
Reimbursable
Expense Threshold
Should Be
Documented**

The contract with the auctioneer requires that specific approval be granted by the District if the auctioneer exceeds the \$3,500 maximum for out-of-pocket expenses. We found that the auctioneer was reimbursed for expenses totaling \$4,610 with only verbal approval given. No documentary evidence was ever prepared to justify the additional payment of \$1,110 (32%) above the not-to-exceed amount. It should also be noted that the sum of the detail of out-of-pocket expenses provided with the *Auction Settlement* was less, by an immaterial amount, than the amount reimbursed resulting in a small overpayment to the auctioneer.

It is important to document specific approval, when incurring costs above not-to-exceed provisions in contracts, because it provides written justification documenting the propriety of the additional expenses that were incurred. If ever questioned about the reasons for the excess, the Project Manager has a written record and does not have to rely on memory to recall the details.

It is also important to review contract documentation for mathematical accuracy to ensure that payment made properly reflects the services received. The documentation for the auction is the *Auction Settlement* statement which details the gross sales proceeds, reimbursable expenses, and the auctioneer's commission. Also, included with the Settlement are the bills of sale and the Registration Log. Other types of errors that could be discovered by reviewing the *Auction Settlement* statement, in addition to the mathematical error discovered, could be that supporting documentation does not agree to the summary schedules (e.g., advertising invoice does not agree to advertising summary), supporting documentation could be missing (e.g., no support for an expense), or transactions could be incomplete (e.g., a sale is omitted).

Recommendations:

- 9. Appropriate officials of the District should document the reasons that the \$3,500 maximum out-of-pocket expense was exceeded and provide required approval.**

Management Response:

AWe concur with the recommendation. On August 23, 1996 the Property Manager and Asset Control Technician met with the auctioneer to discuss the planning and advertising phase of auction preparation. In that meeting, the auctioneer was advised that due to the *Donation of Surplus Property Guidelines*, the advertising would have to be extended to all counties within District boundaries. The Property Manager verbally authorized the auctioneer to proceed with additional advertising.

Property Management will request an amendment to the Auctioneer Services Contract to specify that written authorization be provided for reimbursable expenses in excess of the \$3,500 allowable.@

Responsible Division: General Services, Property
Management Area

Estimated Completion Date: January 1, 1997

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- 10. Property Management should review the *Auction Settlement* for mathematical accuracy and for other possible errors that could occur.**

Management Response:

AProperty Management has requested reimbursement of the \$10 underpayment to the District. We will continue to prepare detailed auction reports consisting of spread sheets which utilize @SUM formulas to detect mathematical errors.@

Responsible Division: General Services, Property Management Area

Estimated Completion Date: December 1, 1997